

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of River Rouge, Michigan</u>	County <u>Wayne</u>
Audit Date <u>June 30, 2003</u>	Opinion Date <u>November 14, 2003</u>	Date Accountant Report Submitted To State: <u>December 8, 2003</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			

City of River Rouge, Michigan

Financial Report with Additional Information June 30, 2003

City of River Rouge, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of River Rouge, Michigan

We have audited the accompanying general purpose financial statements of the City of River Rouge, Michigan as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of River Rouge, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The accompanying general purpose financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. In addition, the combining component unit information presents only modified accrual information. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the combining component unit statements. Further, accounting principles require separate fund-based reporting of its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. In addition, accounting principles require the general fixed asset data to include general infrastructure assets, and the accumulation of depreciation of general fixed assets over their estimated useful lives. The amounts that would be reported in government-wide financial statements for the City's governmental activities, business-type activities, and discretely presented component units (including the full accrual combining component unit data), as well as the amounts of general infrastructure assets and general fixed assets accumulated depreciation, are not reasonably determinable.

To the Honorable Mayor and
Members of the City Council
City of River Rouge, Michigan

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of River Rouge, Michigan as of June 30, 2003 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying general purpose financial statements also do not include a management's discussion and analysis (which would present an analysis of the financial performance for the year) or budgetary comparison schedules with original appropriations for the General Fund and each major Special Revenue Fund. The Governmental Accounting Standards Board has determined that these are necessary to supplement, although are not required to be a part of, the financial statements.

Plante & Moran, PLLC

November 14, 2003

City of River Rouge, Michigan

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Assets			
Cash and cash equivalents (Note 2)	\$ 3,476,306	\$ -	\$ -
Marketable securities (Note 2)	-	-	-
Receivables:			
Taxes	2,549,220	-	-
Customers	-	-	-
Other	18,632	-	-
Due from other governmental units	764,640	312,732	-
Due from other funds (Note 3)	1,288,182	990,956	2,472,575
Due from primary government	-	-	-
Prepaid expenditures and deposits	331,666	-	-
Real estate inventory (Note 1)	-	-	-
Restricted assets (Note 4)	-	-	-
Land, buildings, and equipment (Note 5)	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Total assets	<u>\$ 8,428,646</u>	<u>\$ 1,303,688</u>	<u>\$ 2,472,575</u>

Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 2003

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Enterprise - Water and Sewer	Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ -	\$ 3,119,839	\$ -	\$ -	\$ 6,596,145	\$ 113,541
-	34,519,852	-	-	34,519,852	-
1,109,231	-	-	-	3,658,451	-
1,556,391	-	-	-	1,556,391	-
-	152,615	-	-	171,247	10,131
-	-	-	-	1,077,372	-
-	5,096	-	-	4,756,809	-
-	-	-	-	-	81,602
-	-	-	-	331,666	-
-	-	-	-	-	215,000
4,918,561	-	-	-	4,918,561	-
44,760,831	-	14,258,152	-	59,018,983	-
-	-	-	8,336,615	8,336,615	127,706
<u>\$52,345,014</u>	<u>\$ 37,797,402</u>	<u>\$14,258,152</u>	<u>\$ 8,336,615</u>	<u>\$ 124,942,092</u>	<u>\$ 547,980</u>

City of River Rouge, Michigan

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Liabilities and Fund Equity (Deficit)			
Liabilities			
Vouchers payable	\$ 1,021,050	\$ 286,131	\$ -
Due to other governmental units	3,090,798	-	-
Due to other funds (Note 3)	3,463,531	225,352	-
Due to component units	81,602	-	-
Accrued and other liabilities	716,025	-	-
Deferred revenue	1,920,536	292,251	-
Current liabilities payable from restricted assets (Note 4)	-	-	-
Long-term debt (Note 6)	-	-	-
Total liabilities	10,293,542	803,734	-
Contingencies (Note 12)	-	-	-
Fund Equity (Deficit)			
Investment in general fixed assets	-	-	-
Contributed capital (Note 14)	-	-	-
Retained earnings:			
Reserved (Note 15)	-	-	-
Unreserved	-	-	-
Fund balances (deficit):			
Reserved (Note 15)	1,303,645	-	2,472,575
Unreserved:			
Designated (Note 15)	-	5,297	-
Undesignated	(3,168,541)	494,657	-
Total fund equity (deficit)	(1,864,896)	499,954	2,472,575
Total liabilities and fund equity (deficit)	<u>\$ 8,428,646</u>	<u>\$ 1,303,688</u>	<u>\$ 2,472,575</u>

Combined Balance Sheet
All Fund Types, Account Groups, and Component Units (Continued)
June 30, 2003

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Enterprise - Water and Sewer	Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 1,441,174	\$ -	\$ -	\$ -	\$ 2,748,355	\$ -
-	2,044	-	-	3,092,842	-
971,979	95,947	-	-	4,756,809	-
-	-	-	-	81,602	-
162,337	47,366	-	-	925,728	7,473
-	-	-	-	2,212,787	-
1,463,651	-	-	-	1,463,651	-
21,733,061	-	-	8,336,615	30,069,676	127,706
25,772,202	145,357	-	8,336,615	45,351,450	135,179
-	-	-	-	-	-
-	-	14,258,152	-	14,258,152	-
13,219,997	-	-	-	13,219,997	-
708,170	-	-	-	708,170	-
12,644,645	-	-	-	12,644,645	-
-	37,652,045	-	-	41,428,265	222,468
-	-	-	-	5,297	-
-	-	-	-	(2,673,884)	190,333
26,572,812	37,652,045	14,258,152	-	79,590,642	412,801
\$ 52,345,014	\$ 37,797,402	\$ 14,258,152	\$ 8,336,615	\$ 124,942,092	\$ 547,980

City of River Rouge, Michigan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) All Governmental Fund Types and Component Units Year Ended June 30, 2003

	General	Special Revenue	Debt Service	Total Primary Government (Memorandum Only)	Component Units
Revenue					
Property taxes	\$ 6,211,113	\$ 862,670	\$ -	\$ 7,073,783	\$ 9,233
Licenses and permits	291,832	-	-	291,832	-
Federal sources	122,936	262,848	-	385,784	-
State sources	1,713,297	506,586	-	2,219,883	-
Charges for services	306,574	-	-	306,574	-
Fines and forfeitures	312,953	-	-	312,953	-
Interest	78,458	12,183	-	90,641	8,018
Other	494,339	28,380	-	522,719	256,471
Total revenue	9,531,502	1,672,667	-	11,204,169	273,722
Expenditures					
General government	2,442,400	-	-	2,442,400	-
Public safety	3,942,889	-	-	3,942,889	-
Public services	1,060,184	1,050,485	-	2,110,669	-
Street lighting	223,184	-	-	223,184	-
Culture and recreation	263,210	216,051	-	479,261	-
Drug enforcement	-	72,124	-	72,124	-
Highway and streets	-	510,390	-	510,390	-
Economic and community development	-	304,883	-	304,883	266,250
Other functions	4,473,015	-	-	4,473,015	-
Debt service	357,222	-	150,142	507,364	35,003
Total expenditures	12,762,104	2,153,933	150,142	15,066,179	301,253
Excess of Expenditures Over Revenue	(3,230,602)	(481,266)	(150,142)	(3,862,010)	(27,531)
Other Financing Sources (Uses)					
Proceeds from debt issuance	6,805,000	-	-	6,805,000	-
Defeasance of debt	(775,000)	-	-	(775,000)	-
Operating transfers in	-	125,571	2,622,717	2,748,288	-
Operating transfers out	(2,633,681)	(114,607)	-	(2,748,288)	-
Operating transfers from primary government	-	-	-	-	68,631
Operating transfers to component unit	(68,631)	-	-	(68,631)	-
Total other financing sources (uses)	3,327,688	10,964	2,622,717	5,961,369	68,631
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	97,086	(470,302)	2,472,575	2,099,359	41,100
Fund Balances (Deficit) - July 1, 2002	(1,961,982)	970,256	-	(991,726)	371,701
Fund Balances (Deficit) - June 30, 2003	<u><u>\$ (1,864,896)</u></u>	<u><u>\$ 499,954</u></u>	<u><u>\$ 2,472,575</u></u>	<u><u>\$ 1,107,633</u></u>	<u><u>\$ 412,801</u></u>

City of River Rouge, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 5,263,610	\$ 6,211,113	\$ 947,503
Licenses and permits	303,200	291,832	(11,368)
Federal sources	113,750	122,936	9,186
State sources	1,725,231	1,713,297	(11,934)
Charges for services	299,000	306,574	7,574
Fines and forfeitures	325,000	312,953	(12,047)
Interest	50,000	78,458	28,458
Other revenue	435,204	494,339	59,135
Proceeds from bond issuance	6,805,000	6,805,000	-
Transfers from other funds	230,000	225,098	(4,902)
Total revenue	15,549,995	16,561,600	1,011,605
Expenditures			
General government	2,312,987	2,442,400	(129,413)
Public safety	3,935,674	3,942,889	(7,215)
Public services	1,033,027	1,285,282	(252,255)
Street lighting	222,813	223,184	(371)
Culture and recreation	247,714	263,210	(15,496)
Drug enforcement	-	-	-
Highways and streets	-	-	-
Other functions	4,460,551	4,473,015	(12,464)
Debt service	1,132,222	1,132,222	-
Transfers to other funds	67,050	2,633,681	(2,566,631)
Transfers to component units	68,952	68,631	321
Community development	-	-	-
Total expenditures	13,480,990	16,464,514	(2,983,524)
Excess of Revenue Over (Under) Expenditures	2,069,005	97,086	(1,971,919)
Fund Balances (Deficit) - July 1, 2002	(1,961,982)	(1,961,982)	-
Fund Balances (Deficit) - June 30, 2003	<u>\$ 107,023</u>	<u>\$ (1,864,896)</u>	<u>\$ (1,971,919)</u>

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit) - Budget and Actual
General and Special Revenue Fund Types
Year Ended June 30, 2003**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,241,149	\$ 862,670	\$ (378,479)
-	-	-
260,000	262,848	2,848
520,000	506,586	(13,414)
-	-	-
-	-	-
26,300	12,183	(14,117)
5,000	28,380	23,380
-	-	-
158,300	125,571	(32,729)
2,210,749	1,798,238	(412,511)
-	-	-
-	-	-
1,039,875	1,050,485	(10,610)
-	-	-
228,375	216,051	12,324
75,700	72,124	3,576
572,050	510,390	61,660
-	-	-
-	-	-
91,250	114,607	(23,357)
-	-	-
217,000	304,883	(87,883)
2,224,250	2,268,540	(44,290)
(13,501)	(470,302)	(456,801)
970,256	970,256	-
\$ 956,755	\$ 499,954	\$ (456,801)

City of River Rouge, Michigan

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings - Enterprise Fund Water and Sewer Year Ended June 30, 2003

Operating Revenue - Customer billings	\$ 2,857,898
Operating Expenses	
Cost of water	595,988
Cost of sewage disposal	671,875
Water operations	316,751
Sewer operations	886,949
Depreciation	946,749
Total operating expenses	3,418,312
Operating Loss	(560,414)
Nonoperating Income (Expenses)	
Property taxes	3,533,221
Investment income	62,288
Federal sources	4,500
Miscellaneous expense	(4,500)
Interest expense	(1,031,369)
Total nonoperating income	2,564,140
Net Income	2,003,726
Retained Earnings - July 1, 2002	11,084,744
Add Depreciation on Contributed Capital	264,345
Retained Earnings - June 30, 2003	<u><u>\$ 13,352,815</u></u>

City of River Rouge, Michigan

Statement of Cash Flows Enterprise Fund - Water and Sewer Year Ended June 30, 2003

Cash Flows from Operating Activities

Operating loss	\$ (560,414)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	946,749
Changes in assets and liabilities:	
Taxes receivable	134,790
Customer receivables	191,433
Accounts payable	(456,997)
Accrued and other liabilities	149,683
Net cash provided by operating activities	405,244

Cash Flows from Noncapital Financing Activities - Loan repayments to other funds	(590,390)
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Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(1,852,437)
Proceeds from property tax levy	3,533,221
Replenishment of reserves held at Wayne County	(870,438)
Purchase of capital assets	(150,345)
Net cash provided by capital and related financing activities	660,001

Cash Flows from Investing Activities - Interest received on investments	3,681
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Net Increase in Cash and Cash Equivalents	478,536
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Cash and Cash Equivalents - July 1, 2002	229,634
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Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 708,170</u></u>
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Balance Sheet Classifications of Cash and Cash Equivalents - Restricted assets

(Note 4)	<u><u>\$ 708,170</u></u>
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Noncash Investing, Capital, and Financing Activities - Construction expenditures on the EPA-mandated CSO basin sewer line improvement project in the current year paid from County reserves totaled approximately \$1,297,000. The balance of unpaid liabilities at the County also increased by approximately \$173,000. The County also paid approximately \$250,000 of bond and State Revolving Loan principal and interest payments related to the Downriver Sewage Improvement Project. The County borrowed approximately \$1,358,000 from the State Revolving Loan program on the City's behalf. The proceeds were received by the County to fund final construction costs related to the CSO basin sewer line improvement project. Interest earned during the year on assets held at Wayne County related to both projects was approximately \$59,000.

City of River Rouge, Michigan

Statement of Changes in Plan Net Assets Pension Trust Funds Year Ended June 30, 2003

Additions

Investment income (loss):	
Interest and dividends	\$ 1,096,337
Net depreciation in fair value of investments	(186,866)
Mortgage repayments and other	<u>65,393</u>
Net investment income	974,864
Contributions:	
Employer	1,011,503
Employees	<u>333,117</u>
Total additions	2,319,484

Deductions

Benefit payments	4,737,543
Administrative expenses	<u>447,637</u>
Total deductions	<u>5,185,180</u>

Net Decrease in Net Assets Held in Trust for Pension Benefits (2,865,696)

Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>40,517,741</u>
End of year	<u><u>\$ 37,652,045</u></u>

City of River Rouge, Michigan

Combining Balance Sheet Component Units Year Ended June 30, 2003

	Economic Development Corporation	Downtown Development Authority	Total
Assets			
Cash and cash equivalents (Note 2)	\$ 113,541	\$ -	\$ 113,541
Loan receivable - Net of allowance	10,131	-	10,131
Due from primary government	45,574	36,028	81,602
Real estate inventory (Note 1)	215,000	-	215,000
Amount to be provided for long-term debt	127,706	-	127,706
Total assets	<u>\$ 511,952</u>	<u>\$ 36,028</u>	<u>\$ 547,980</u>
Liabilities and Fund Balance			
Liabilities			
Security deposits	\$ 7,473	\$ -	\$ 7,473
Long-term debt (Note 6)	127,706	-	127,706
Total liabilities	135,179	-	135,179
Fund Balance			
Reserved (Note 15)	222,468	-	222,468
Unreserved - Undesignated	154,305	36,028	190,333
Total fund balance	376,773	36,028	412,801
Total liabilities and fund balance	<u>\$ 511,952</u>	<u>\$ 36,028</u>	<u>\$ 547,980</u>

City of River Rouge, Michigan

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Component Units Year Ended June 30, 2003

	Economic Development Corporation	Downtown Development Authority	Total
Revenue			
Property taxes	\$ -	\$ 9,233	\$ 9,233
Rental income - Building	193,694	-	193,694
Rental income - Tower	17,940	-	17,940
Sale of asset	18,754	-	18,754
Interest	8,018	-	8,018
Other	26,083	-	26,083
Total revenue	264,489	9,233	273,722
Expenditures			
Project and other expenses	38,320	7,921	46,241
Rental expenses	220,009	-	220,009
Debt service	35,003	-	35,003
Total expenditures	293,332	7,921	301,253
Excess of Revenue Over (Under) Expenditures	(28,843)	1,312	(27,531)
Other Financing Sources - Operating transfers from primary government	68,631	-	68,631
Excess of Revenue and Other Financing Sources Over Expenditures	39,788	1,312	41,100
Fund Balances - July 1, 2002	336,985	34,716	371,701
Fund Balances - June 30, 2003	<u>\$ 376,773</u>	<u>\$ 36,028</u>	<u>\$ 412,801</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of River Rouge, Michigan (the "City") do not conform to generally accepted accounting principles as applicable to governmental units. The City has not modified its financial reporting to adopt Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As such, the general purpose financial statements exclude the management's discussion and analysis, government-wide statement of net assets and government-wide statement of activities. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation on general fixed assets.

The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and a six-member council. As required by generally accepted accounting principles, these financial statements present the City of River Rouge and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationship with the City.

The Policemen and Firemen and General Employees' Retirement Systems have been blended into the City's financial statements. The systems are governed by five-member pension boards that include three individuals chosen by the mayor and City Council. The systems are reported as if part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems. Additionally, the 26th District Court Division I Agency Fund has also been blended into the City's financial statements.

Discretely Presented Component Units

The following entities are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation (the “EDC”) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC’s governing body, which consists of nine individuals, is selected by the City Council. A complete financial report can be obtained by contacting the City Clerk at 10600 W. Jefferson Avenue, River Rouge, Michigan 48218.

The Downtown Development Authority (the “DDA”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of 11 individuals, is appointed by the mayor with the approval of the City Council. In addition, the Authority’s budget is subject to approval by the City Council. A complete financial report for the DDA is not available.

The City has excluded the Housing Commission from this report as a component unit because the City does not exercise substantial oversight responsibility. The Housing Commission financial statements have been issued under separate cover. The Housing Commission reimburses the City for all payroll expenditures, including pension contributions. The Housing Commission has outstanding liabilities to the General Fund in the amount of \$22,253 for payroll reimbursement.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Note 1 - Summary of Significant Accounting Policies (Continued)

Debt Service Fund - The Debt Service Fund is used to account for the proceeds of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Pension Retirement Systems Funds and the Agency Fund. The Pension Retirement Systems Funds are accounted for in the same manner as proprietary funds. The 26th District Court Division I Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Basis of Accounting

The accrual basis of accounting is used by the Enterprise Fund and the Pension Retirement Systems Funds. All governmental funds and the component units utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations of the City are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Noncurrent receivables, such as long-term loans, are recorded at full value and fund balance is reserved for the portion not available for use to finance operations as of year end.
- c. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.

Note 1 - Summary of Significant Accounting Policies (Continued)

- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. Normally, expenditures are not divided between years by the recording of prepaid expenses. The prepaid expenses recorded in the General Fund represent advance payments on various insurance policies.
- f. The noncurrent portion of accumulated sick and vacation days, unemployment, and self-insured liabilities is reflected in the General Long-term Debt Account Group.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the Enterprise Fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the Enterprise Fund on a straight-line basis.

Cash Equivalents - For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Real Estate Inventory - Real estate inventory in the component units is held for resale and is valued at the lower of cost of market.

Investments and Marketable Securities - Investments are reported at fair value, based on quoted market prices.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Significant Customers - The City has two significant customers, Great Lakes Steel Corporation and Detroit Edison Company that, when combined, represented approximately 59 percent of property tax revenue and 49 percent of water and sewage disposal revenue for the year ended June 30, 2003.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the noted amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

Note 2 - Deposits and Investments

The City's deposits and investments at June 30, 2003 are included on the balance sheet under the following classifications:

GASB Category 3	Balance Sheet Classification		
	Cash and Cash Equivalents	Marketable Securities	Restricted Assets (Note 4)
Deposits:			
General Fund	\$ 3,476,306	\$ -	\$ -
Water and Sewer Enterprise Fund	-	-	708,170
General Employees' Retirement System	1,148,132	-	-
Police and Fire Retirement System	1,902,042	-	-
Agency Fund	69,665	-	-
Investments	-	34,519,852	-
Total	<u>\$ 6,596,145</u>	<u>\$ 34,519,852</u>	<u>\$ 708,170</u>

Note 2 - Deposits and Investments (Continued)

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$6,500,000. Of that amount, up to \$600,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The General Employees' Retirement System and Policemen and Firemen Retirement System are authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain foreign and domestic state and local government obligations, and certain other specified investment vehicles.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2003. Risk Category 1 includes those investments that meet any of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

All investments held by the City at June 30, 2003 are Category 2.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

	Carrying Amount (Fair Value)
General Employees' Retirement System:	
U.S. government securities	\$ 2,857,495
Common stock	6,777,864
Foreign stocks	1,126,248
Corporate bonds	172,729
Policemen and Firemen Retirement System:	
U.S. government securities	33,776
Common stock	17,196,896
Corporate bonds	6,192,653
Foreign bonds	157,520
Mortgages	4,671
Total	<u>\$ 34,519,852</u>

Included in the City's retirement systems' investments at June 30, 2003 are the following:

- Approximately \$16,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$1,725,000 of securities issued by the Federal National Mortgage Association (FNMA). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Deposits and Investments (Continued)

Component Units - The cash of the City's component units consists solely of bank deposits. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$114,000, which was fully covered by federal depository insurance.

Note 3 - Interfund Receivables

The following are the interfund receivables at June 30, 2003:

General Fund:

Major Street Fund	\$ 4,521
District Court - Agency Fund	20,255
Community Development Block Grant Fund	220,831
Policemen and Firemen Retirement System Fund	27,173
General Employees' Retirement System Fund	43,423
Enterprise Fund	<u>971,979</u> *

Total General Fund 1,288,182

Special Revenue Funds:

Refuse Fund - General Fund	634,416
Local Street Fund - General Fund	14,295
Library Fund - General Fund	266,507
Drug Enforcement Fund - General Fund	<u>75,738</u>

Total Special Revenue Funds 990,956

Debt Service Fund - General Fund 2,472,575

Fiduciary Funds - Policemen and Firemen Retirement System

Fund - General Employees' Retirement System Fund 5,096

Total interfund receivables \$ 4,756,809

* The amount due from the Enterprise Fund is considered noncurrent and fund balance in the General Fund has been reserved for this amount.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Restricted Assets

Restricted assets at June 30, 2003 consist of the following:

Judgment levy collections	\$ 708,170
Assets held at Wayne County for water and sewer line construction	<u>4,210,391</u>
Total assets restricted	4,918,561
Less current liabilities payable from restricted assets	<u>(1,463,651)</u>
Net assets restricted	<u>\$ 3,454,910</u>

Assets held at Wayne County totaling \$4,210,391 result from the issuance of debt. Retained earnings have been reserved in the amount of \$708,170.

Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land and improvements	\$ 2,847,836	\$ 206,121	\$ (156,484)	\$ 2,897,473
Buildings and structures	4,979,665	56,438	(40,000)	4,996,103
Pavement	2,489,212	-	-	2,489,212
Equipment	<u>3,847,902</u>	<u>202,462</u>	<u>(175,000)</u>	<u>3,875,364</u>
Total general fixed assets	<u>\$ 14,164,615</u>	<u>\$ 465,021</u>	<u>\$ (371,484)</u>	<u>\$ 14,258,152</u>

A summary of Enterprise Fund fixed assets at June 30, 2003 is as follows:

	Amount	Depreciable Life - Years
Land	\$ 150,378	-
Water and sewer mains and basins	47,693,381	50
Pumping station	1,530,802	3-50
Equipment and meters	968,170	5-15
Vehicles	<u>355,877</u>	4
Total cost	50,698,608	
Less accumulated depreciation	<u>(5,937,777)</u>	
Net carrying amount	<u>\$44,760,831</u>	

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City of River Rouge at June 30, 2003:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding	
				Enterprise Fund	Long-term Debt
Lease obligations	3	7.00%	2006	\$ 124,235	\$ -
State Revolving Fund Loan - Downriver	12	2.00%-2.25%	2022	3,225,723	-
Downriver Sewage Disposal System Bonds - Series A & B	1	6.31%	2004	6,504	-
State Revolving Fund - Loan - CSO	1	2.25%	2019	4,841,599	-
Wayne County CSO Revenue Bonds	1	4.60%-5.375%	2018	13,535,000	-
Compensated absences (1)	-	-	-	-	1,271,615
Lawsuits and asserted claims (2)	-	-	-	-	150,000
Self-funded medical claims (3)	-	-	-	-	110,000
Fiscal stabilization bonds (4)	1	2.0%-5.00%	2033	-	6,805,000
Total long-term debt				<u>\$ 21,733,061</u>	<u>\$ 8,336,615</u>

(1) The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick and vacation pay policy, net of the portion that is estimated will be paid currently (which has been recorded as a liability in the General Fund). Under the City's policy, employees earn sick and vacation time based on time of service with the City.

(2) The lawsuits and asserted claims represent an estimate by City management and legal counsel of the City's probable liability as of June 30, 2003 in connection with certain lawsuits currently pending.

(3) The self-funded medical claims represent an estimate by City management of the City's probable liability as of June 30, 2003 in connection with certain medical claims currently pending.

(4) Pursuant to the terms and conditions of the fiscal stabilization bonds, the City's future state-shared revenue has been pledged in connection with this obligation.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of debt transactions of the City for the year ended June 30, 2003:

	General Obligations	Revenue Bonds	Total
Balance - July 1, 2002	\$ 9,737,141	\$ 14,135,000	\$ 23,872,141
Increase in lawsuits and asserted claims	18,000	-	18,000
Decrease in compensated absences and claims	(16,350)	-	(16,350)
Increase in self-funded medical claims	110,000	-	110,000
Debt retired	(702,026)	(600,000)	(1,302,026)
Debt defeased	(775,000)	-	(775,000)
Debt issued:			
General Fund	6,805,000	-	6,805,000
Water & Sewer - State Revolving Fund	1,357,911	-	1,357,911
Balance - June 30, 2003	<u>\$ 16,534,676</u>	<u>\$ 13,535,000</u>	<u>\$ 30,069,676</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2003 (excluding capital leases, compensated absences, lawsuits, and asserted claims), including both principal and interest, are as follows:

Years Ending June 30	Debt Serviced Through		
	Governmental		
	Fund Resources	Proprietary Fund	Total
2004	\$ 428,983	\$ 1,929,937	\$ 2,358,920
2005	426,383	1,917,662	2,344,045
2006	428,733	1,920,346	2,349,079
2007	425,830	1,919,576	2,345,406
2008	427,388	1,917,077	2,344,465
Remaining years	<u>10,575,544</u>	<u>19,582,665</u>	<u>30,158,209</u>
Total	<u>\$ 12,712,861</u>	<u>\$ 29,187,263</u>	<u>\$ 41,900,124</u>

Note 6 - Long-term Debt (Continued)

Capital Leases

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2003, are as follows:

Years Ending <u>June 30</u>	Proprietary <u>Fund</u>
2004	\$ 47,340
2005	47,340
2006	<u>47,340</u>
Total minimum lease payments	142,020
Less amount representing interest	<u>(17,785)</u>
Present value of net minimum lease payments	<u><u>\$ 124,235</u></u>

Interest

Total interest incurred for the City for the year approximated \$1,231,000.

Defeased Debt

During the year, the City issued \$6,805,000 in fiscal stabilization bonds with an average interest rate of 3.50 percent, of which \$805,000 was issued to defease debt. The net proceeds from this issue were \$6,650,742, of which \$778,889 (after payment of \$26,111 in underwriting fees, original issue discount, and other issuance costs) was used to advance refund \$775,000 of outstanding principal on the 1991 Fiscal Stabilization Bonds with an average interest rate of 7.25 percent. As a result, the 1991 bonds are considered to be defeased and the liability for the bonds has been removed from the General Long-term Debt Account Group. The advance refunding reduced total debt service payments over the next six years by approximately \$124,000, which represents an economic gain of approximately \$89,000.

Note 6 - Long-term Debt (Continued)

No Commitment Debt

Excluded from the General Long-term Debt Account Group are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings, and equipment. Under terms of the leases, the lessees are required to make payments to the bond-paying agents equal to the bond principal and interest payments as they come due. These bonds are not a liability of the City since they are payable solely from the net revenue derived from the respective leases. After these bonds are issued, all financial activity is taken over by the paying agent.

The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Component Units

Outstanding Debt

The following is a summary of the debt outstanding of the Economic Development Corporation of the City of River Rouge at June 30, 2003:

General Obligation Bonds	Balance July 1, 2002	Additions	Debt Retired	Balance June 30, 2003
Mortgage loan, issued in the amount of \$130,000. Payments of \$1,417, including interest at 10.25 percent, are due monthly, beginning March 15, 2000, with a final balloon payment due on February 15, 2005	\$ 120,791	\$ -	\$ (4,667)	\$ 116,124
Land contract agreement, issued in the amount of \$60,301. Payments of \$1,500, including interest at 8 percent, are due monthly, beginning on April 15, 2000, with a final payment due on February 15, 2004	27,938	-	(16,356)	11,582
Total long-term debt	<u>\$ 148,729</u>	<u>\$ -</u>	<u>\$ (21,023)</u>	<u>\$ 127,706</u>

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2003, including both principal and interest, are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2004	\$ 29,003
2005	<u>118,611</u>
Total	<u>\$ 147,614</u>

Interest

Total interest incurred for the Economic Development Corporation for the year approximated \$14,000.

Note 7 - Budget Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, with the following exceptions:

- Operating transfers, proceeds of debt issued, and payments to defease debt have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction to expenditures.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Budget Information (Continued)

The budget statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - all governmental fund types and component units):

	General Fund		Special Revenue Funds	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 9,531,502	\$ 12,762,104	\$ 1,672,667	\$ 2,153,933
Operating transfers	-	2,702,312	125,571	114,607
Proceeds from bond issuance	6,805,000	-	-	-
Defeased debt recorded as debt service	-	775,000	-	-
Reimbursements from other funds recorded as revenue	225,098	225,098	-	-
Amounts per budget statement	<u>\$ 16,561,600</u>	<u>\$ 16,464,514</u>	<u>\$ 1,798,238</u>	<u>\$ 2,268,540</u>

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of the General Fund expenditure budget as adopted by the City Council is included in the additional information and a comparison of actual results of the General Fund revenue budget is included in the general purpose financial statements. This comparison includes expenditure budget overruns. A comparison of actual results of operations to the Special Revenue Funds budget as adopted by the City Council is available at the clerk's office for inspection.

An overview of significant expenditure budget overruns is as follows:

	Budget	Actual
General Fund:		
General government	\$ 2,312,987	\$ 2,442,400
Public safety	3,935,674	3,942,889
Public services	1,033,027	1,285,282
Culture and recreation	247,714	263,210
Other functions	4,460,551	4,473,015
Transfers to other funds	67,050	2,633,681
Special Revenue Funds:		
Public services	1,039,875	1,050,485
Transfers to other funds	91,250	114,607
Community development	217,000	304,883

Note 7 - Budget Information (Continued)

At June 30, 2003 the General Fund had a fund deficit of \$1,864,896 resulting primarily from the deferral of property tax revenue not received within 60 days of year end. See Note 17 for additional information regarding delinquent property tax balances.

At June 30, 2003, the Community Development Block Grant fund had a deficit of \$83,557. The deficit is the result of deferring federal grant revenue, for which grant reimbursements were not received within 60 days of year end. The deficit was eliminated through the receipt of reimbursement requests subsequent to year end.

Note 8 - Pension Plan

General Employees' Pension Plan

Plan Description - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of River Rouge General Employees' Retirement System (the "System"); this plan covers most full-time general employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of 115 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 66 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent for General and Housing Local 1917 and 6.3 percent for all others. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Note 8 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2003, the City's annual pension cost of \$624,012 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.5 percent per year, and (c) .2 percent to 4.0 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 14 years.

Reserves - As of June 30, 2003, the balances in the plan's reserves are as follows:

Legally required reserves - Employee contributions	\$ 1,705,333
Additional reserves:	
Reserve for retiree benefit payments	14,641,029
Reserve for employer contributions	<u>(4,246,819)</u>
Total reserves	<u>\$ 12,099,543</u>

Trend Information

	Fiscal Year Ended June 30		
	2001	2002	2003
Annual pension cost (APC)	\$ 521,510	\$ 590,228	\$ 624,012
Percent of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 8 - Pension Plan (Continued)

Policemen and Firemen Retirement System

Plan Description - The Policemen and Firemen Retirement System is a single-employer defined benefit pension plan that is administered by the City of River Rouge Policemen and Firemen Retirement System; this plan covers certain police and fire employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of 89 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 48 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2003, the City's annual pension cost of \$387,491 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2001, using the entry actual age cost method. Significant actuarial assumptions include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) .2 percent to 4.0 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 19 years.

Effective December 2001, significant actuarial assumptions were revised. Revisions include projected salary increases of 4.5 percent and a reduction to the inflation component to 4.5 percent. The actuarial cost method was also changed to the aggregate cost method. The above changes are effective for the actuarial valuation performed as of June 30, 2002.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Pension Plan (Continued)

Reserves - As of June 30, 2003, the balances in the plan's reserves are as follows:

Legally required reserves - Employee contributions	\$ 1,942,480
Additional reserves:	
Reserve for retiree benefit payments	22,726,951
Reserve for employer contributions	<u>883,071</u>
Total reserves	<u>\$ 25,552,502</u>

Trend Information

	Fiscal Year Ended June 30		
	2001	2002	2003
Annual pension cost (APC)	\$ 524,143	\$ 428,067	\$ 387,491
Percent of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) of the Internal Revenue Code. The plan was approved by the police officers in October 1998 and firefighters in December 1998 and covers all police officer and fire fighter members hired on or after January 1, 1999. The general employees approved the plan in August 1999; the plan covers all members hired on or after September 1, 1999.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City of River Rouge through collective bargaining agreements, the City and employees contribute a percentage of employees' earnings as follows:

	Employer Contribution	Employee Contribution
Police	9%	5%
Fire	9%	5%
General	9%	5%

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Defined Contribution Pension Plan (Continued)

The employee contribution percentages noted above represent the minimum required contribution. Employees are permitted to contribute additional amounts up to the maximum allowed by law.

In accordance with the above requirements, the City expensed \$51,465 during the current year as follows:

	Employer Contribution
Police	\$ 11,837
Fire	18,527
General	<u>21,101</u>
Total	<u>\$ 51,465</u>

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 204 retirees or surviving spouses are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. During the year ended June 30, 2003, the amount paid for postemployment health care benefits approximated \$989,000.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City purchased commercial insurance for property loss claims and participated in the Michigan Municipal League (risk pool) for claims relating to workers' compensation claims prior to June 30, 1991. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Risk Management (Continued)

The City was uninsured for hospitalization, general liability, and workers' compensation claims for the period from June 30, 1991 to December 1, 1995. From December 1, 1995 through December 1, 2001, the City participated in the Michigan Municipal League for workers' compensation, general liability, and property loss. Effective December 1, 2001, only workers' compensation is covered by the League.

On December 1, 2001, the City joined the Michigan Municipal Risk Management Authority for general liability and property loss coverage. This risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for hospitalization, workers' compensation, and general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported.

These estimates are recorded in the General Long-term Debt Account Group and the General Fund. Changes in the estimated liability were as follows:

	Hospitalization	General Liability
Estimated liability - July 1, 2001	\$ 350,000	\$ 310,695
Estimated claims incurred - Including changes in estimates	1,795,688	(121,172)
Claim payments	<u>(1,795,688)</u>	<u>(29,828)</u>
Estimated liability - June 30, 2002	350,000	159,695
Estimated claims incurred - Including changes in estimates	2,189,644	59,516
Claim payments	<u>(2,079,644)</u>	<u>(41,516)</u>
Estimated liability - June 30, 2003	<u>\$ 460,000</u>	<u>\$ 177,695</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 11 - Risk Management (Continued)

These liabilities are recorded in the fund and account group as follows:

	Hospitalization	General Liability
General Fund	\$ 350,000	\$ 27,695
General Long-term Debt Account Group	110,000	150,000
Total	<u>\$ 460,000</u>	<u>\$ 177,695</u>

Note 12 - Contingencies

Lawsuits and Asserted Claims

The City is a defendant in several lawsuits and asserted claims. A provision of \$150,000 has been made in the General Long-term Debt Account Group for the estimated liability for certain of these lawsuits (see also Note 11). Management and legal counsel believe the City's ultimate exposure with respect to the remaining actions is not determinable. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

Note 13 - Commitment

In August 1995, the City contracted with Wayne County to manage all aspects of the construction of a CSO basin. The agreement called for the City to turn over all bond, grant, and State Revolving Fund Loan proceeds to the County sufficient to cover all costs. During 2002, the City was notified by Wayne County that all funds originally remitted by the City had been disbursed and approximately \$6,000,000 in additional funds would be needed to complete the City's requirements under the original court order noted above. In July 2003, the City reached settlement agreements with Wayne County and the primary contractor. The three remaining items that remain unresolved in the original court order are as follows:

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 13 - Commitment (Continued)

1. A 60-inch relief sewer at the Coolidge viaduct was required under the original order. Wayne County, as the project manager, determined this sewer was not necessary. The Michigan Department of Environmental Quality (MDEQ) has determined this sewer may still be required. The City and the County are in the process of obtaining a grant to fund a water sampling study to prove to MDEQ that construction of this sewer is no longer necessary since the construction on the CSO basin. If it is determined this sewer is necessary, the estimated cost of \$4,000,000 would have to be paid by the City's Enterprise Fund. No funds are available currently for this project and no amounts have been recorded in the financial statements at June 30, 2003.
2. MDEQ is requiring the City to have an alternate power source to power all five motors at the CSO basin. The City currently has sufficient power sources to power two of the motors. Wayne County and the City are working with MDEQ and the court to resolve this issue. If the City is required to have an alternate power source for all five motors, the additional annual operating cost to the Enterprise Fund is estimated at \$500,000.
3. MDEQ is requiring the repair of a 66-inch sewer on Dwight Street that is estimated to cost \$1,000,000. Wayne County has agreed to provide the City a grant through the National Wet Weather Demonstration Grant program sufficient to cover the costs of this repair.

Note 14 - Contributed Capital

The following is an analysis of contributed capital by source:

	Balance July 1, 2002	Current Year Additions and Adjustments	Balance June 30, 2003
Federal grants	\$ 13,316,163	\$ -	\$ 13,316,163
Other	168,179	-	168,179
Total	13,484,342	-	13,484,342
Depreciation charged to contributed capital	-	(264,345)	(264,345)
Net contributed capital	<u>\$ 13,484,342</u>	<u>\$ (264,345)</u>	<u>\$ 13,219,997</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2003

Note 15 - Designated and Reserved Fund Balances/Retained Earnings

Fund balance of the Special Revenue Funds has been designated for subsequent year's budgeted expenditures in excess of revenue for \$5,297. Fund balances and retained earnings have been reserved for the following purposes:

	General Fund	Debt Service Fund	Enterprise Fund	Trust and Agency Fund	Component Units
Reserved for debt service	\$ -	\$ 2,472,575	\$ 708,170	\$ -	\$ -
Reserved for prepaid expenditures	331,666	-	-	-	-
Reserved for noncurrent receivable	-	-	-	-	7,468
Reserved for real estate inventory	-	-	-	-	215,000
Reserved for noncurrent interfund receivable	971,979	-	-	-	-
Reserved for pension benefits	-	-	-	37,652,045	-
Total	<u>\$ 1,303,645</u>	<u>\$ 2,472,575</u>	<u>\$ 708,170</u>	<u>\$ 37,652,045</u>	<u>\$ 222,468</u>

Note 16 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2002	\$ (158,297)
Current year building permit revenue	190,182
Related expenses:	
Direct costs	\$ 264,770
Estimated indirect costs	<u>81,600</u>
Total construction code expenses	<u>346,370</u>
Cumulative shortfall at June 30, 2003	<u>\$ (314,485)</u>

Note 17 - Subsequent Event

In March 2002, the City's largest taxpayer, National Steel - Great Lakes Division (National), filed for Chapter 11 bankruptcy. The bankruptcy filing resulted in the City not receiving National's third installment of their 2001 property tax bills and no payments on any of their 2002 tax bills. The total unpaid balance at March 1, 2003 totaled approximately \$7,480,000 (including penalty and interest) and includes all City levies (General, Refuse, and Economic Development) as well as two court-ordered judgment levies. In May 2003, National made a partial payment on the outstanding personal property and Act 198 tax bill balances totaling approximately \$1,940,000. In October 2003, the City and National reached a settlement on the outstanding property tax balances. The City agreed to waive the penalty on the outstanding balances and also agreed to reduce the outstanding principal amount due on the tax bills by 28 percent and 35 percent for the tax years 2002 and 2001, respectively. The agreement resulted in a decrease in the outstanding balance of approximately \$2,380,000. The remaining balance of approximately \$3,160,000 was paid to the City during October 2003.

In 2003, United States Steel (US Steel) purchased the bankrupt National Steel Corporation. US Steel has appealed their 2003 tax assessment based on their purchase price allocation. US Steel is seeking a reduction of approximately 50 percent of the taxable valuation on the 2003 tax rolls. If US Steel were successful in their appeal, the City would have to refund approximately \$1,400,000 from the City levies (General, Refuse, and Economic Development) and approximately \$500,000 from the court-ordered judgment levies collected during their year ending June 30, 2004. The City contends the taxable value assigned to the US Steel properties is accurate. The outcome of the tax appeal is undeterminable at this time and only affects the City's year ending June 30, 2004 and subsequent years' revenue.

Additional Information

City of River Rouge, Michigan

Retirement System Required Supplementary Information Policemen and Firemen Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/96	\$ 23,555,152	\$ 27,116,532	\$ 3,561,380	86.9	\$ 2,875,918	123.8
06/30/97	25,573,216	27,580,407	2,007,191	92.7	2,756,785	72.8
06/30/98	28,282,492	27,482,273	(800,219)	102.9	2,685,729	(29.8)
06/30/99	30,975,123	28,118,267	(2,856,856)	110.2	3,005,802	(95.1)
06/30/00	32,663,571	29,370,588	(3,292,983)	111.2	3,094,560	(106.4)
06/30/01	33,089,914	30,007,692	(3,082,222)	110.3	3,250,571	(94.8)
06/30/02	31,644,156	35,068,838	3,424,682	90.2	2,801,663	122.2

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	\$ 1,098,388	100
1998	799,425	100
1999	787,203	100
2000	673,440	100
2001	524,143	100
2002	428,067	100
2003	387,491	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Aggregate
Asset valuation method	Closed four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.7%-8.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

City of River Rouge, Michigan

Retirement System Required Supplementary Information General Employees' Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/96	\$ 13,273,236	\$ 20,632,523	\$ 7,359,287	64.3	\$ 1,887,114	390.0
06/30/97	13,684,781	20,512,520	6,827,739	66.7	2,098,141	325.4
06/30/98	14,884,205	20,242,772	5,358,567	73.5	1,981,738	270.4
06/30/99	15,964,764	20,356,410	4,391,646	78.4	1,731,438	253.6
06/30/00	16,111,076	20,918,580	4,807,504	77.0	1,786,409	269.1
06/30/01	16,009,970	20,666,344	4,656,374	77.5	1,814,229	256.7
06/30/02	15,194,970	21,228,089	6,033,119	71.6	1,862,030	324.0

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	\$ 710,206	100
1998	666,156	100
1999	599,428	100
2000	582,368	100
2001	521,510	100
2002	590,228	100
2003	624,012	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	14 years
Asset valuation method	Closed four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5.7%-9.5%
*Includes inflation at	5.5%
Cost of living adjustments	None

City of River Rouge, Michigan

General Fund Schedule of Expenditures - Budget and Actual Year Ended June 30, 2003

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Budget	Actual	
General Government				
Legislative	\$ 37,840	\$ 51,000	\$ 51,000	\$ -
26th District Court	310,923	293,047	296,031	(2,984)
Executive and financial management	109,973	173,219	166,126	7,093
Elections	8,463	43,700	41,450	2,250
Assessment	91,482	86,800	92,520	(5,720)
City attorney and legal claims	703,807	884,984	952,081	(67,097)
City Clerk and photostating	109,361	116,652	114,786	1,866
Personnel and purchasing	142,281	142,303	145,048	(2,745)
City Treasurer	110,488	114,752	117,314	(2,562)
Data processing	9,838	10,100	10,062	38
Building maintenance	369,665	396,430	455,982	(59,552)
Total general government	2,004,121	2,312,987	2,442,400	(129,413)
Public Safety				
Police department	2,615,187	2,354,156	2,346,853	7,303
Fire department	1,670,412	1,581,518	1,596,036	(14,518)
Total public safety	4,285,599	3,935,674	3,942,889	(7,215)
Public Services				
Building Department	248,137	238,217	264,770	(26,553)
Department of Public Works	722,889	420,018	629,926	(209,908)
Neighborhood improvement program	273,865	200,000	206,121	(6,121)
Senior Center and City Planner	314,042	174,792	184,465	(9,673)
Total public services	1,558,933	1,033,027	1,285,282	(252,255)
Street Lighting	223,828	222,813	223,184	(371)
Culture and Recreation	344,123	247,714	263,210	(15,496)
Other Functions				
General functions and other	287,513	450,000	447,000	3,000
Insurance	2,366,787	2,843,551	2,829,026	14,525
Pension programs	934,199	962,000	970,681	(8,681)
Direct employee fringe costs	168,497	205,000	226,308	(21,308)
Total other functions	3,756,996	4,460,551	4,473,015	(12,464)
Debt Service	83,694	1,132,222	1,132,222	-
Transfers to Other Funds	224,227	67,050	2,633,681	(2,566,631)
Transfers to Component Units	70,313	68,952	68,631	321
Total expenditures	<u>\$ 12,551,834</u>	<u>\$ 13,480,990</u>	<u>\$ 16,464,514</u>	<u>\$ (2,983,524)</u>

City of River Rouge, Michigan

	Major Highway	Local Highway
Assets		
Receivables:		
Due from State of Michigan	\$ 62,861	\$ 24,365
Due from Wayne County	-	-
Due from General Fund	-	14,295
	<u>-</u>	<u>14,295</u>
Total assets	<u>\$ 62,861</u>	<u>\$ 38,660</u>
Liabilities and Fund Balances (Deficit)		
Liabilities		
Vouchers payable	\$ 36,801	\$ 38,660
Deferred revenue	-	-
Due to General Fund	4,521	-
	<u>4,521</u>	<u>-</u>
Total liabilities	41,322	38,660
Fund Balances (Deficit) - Unreserved		
Designated	-	-
Undesignated	21,539	-
	<u>21,539</u>	<u>-</u>
Total fund balances (deficit)	<u>21,539</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 62,861</u>	<u>\$ 38,660</u>

**Special Revenue Funds
Combining Balance Sheet
June 30, 2003**

Refuse	Drug Enforcement	Library	Community Development Block Grant	Total
\$ -	\$ -	\$ -	\$ -	\$ 87,226
-	-	-	225,506	225,506
<u>634,416</u>	<u>75,738</u>	<u>266,507</u>	<u>-</u>	<u>990,956</u>
<u>\$ 634,416</u>	<u>\$ 75,738</u>	<u>\$ 266,507</u>	<u>\$ 225,506</u>	<u>\$ 1,303,688</u>
\$ 62,012	\$ 1,508	\$ 142,475	\$ 4,675	\$ 286,131
173,912	-	34,782	83,557	292,251
<u>-</u>	<u>-</u>	<u>-</u>	<u>220,831</u>	<u>225,352</u>
235,924	1,508	177,257	309,063	803,734
-	-	5,297	-	5,297
<u>398,492</u>	<u>74,230</u>	<u>83,953</u>	<u>(83,557)</u>	<u>494,657</u>
398,492	74,230	89,250	(83,557)	499,954
<u>\$ 634,416</u>	<u>\$ 75,738</u>	<u>\$ 266,507</u>	<u>\$ 225,506</u>	<u>\$ 1,303,688</u>

City of River Rouge, Michigan

	Major Highway	Local Highway
Revenue		
Property taxes	\$ -	\$ -
Federal grant	-	-
State of Michigan - Gas and weight tax	367,559	139,027
Interest income	-	-
Other revenue	-	-
Total revenue	367,559	139,027
Expenditures		
Refuse charges	-	-
Street maintenance and snow removal	188,731	224,156
Administration	36,756	13,903
Repairs and maintenance	28,643	18,201
Drug enforcement	-	-
Library	-	-
Home program	-	-
Community development expenditures	-	-
Total expenditures	254,130	256,260
Excess of Revenue Over (Under) Expenditures	113,429	(117,233)
Other Financing Sources (Uses)		
Operating transfers in	-	117,233
Operating transfers out	(91,890)	-
Total other financing sources (uses)	(91,890)	117,233
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	21,539	-
Fund Balances (Deficit) - July 1, 2002	-	-
Fund Balances (Deficit) - June 30, 2003	<u>\$ 21,539</u>	<u>\$ -</u>

Special Revenue Funds
Combining Statement of Revenue,
Expenditures, and Changes in Fund Balances (Deficit)
Year Ended June 30, 2003

Refuse	Drug Enforcement	Library	Community Development Block Grant	Total
\$ 718,891	\$ -	\$ 143,779	\$ -	\$ 862,670
-	40,066	-	222,782	262,848
-	-	-	-	506,586
7,991	890	3,302	-	12,183
-	3,220	25,160	-	28,380
726,882	44,176	172,241	222,782	1,672,667
1,050,485	-	-	-	1,050,485
-	-	-	-	412,887
-	-	-	5,550	56,209
-	-	-	-	46,844
-	72,124	-	-	72,124
-	-	216,051	-	216,051
-	-	-	41,288	41,288
-	-	-	258,045	258,045
1,050,485	72,124	216,051	304,883	2,153,933
(323,603)	(27,948)	(43,810)	(82,101)	(481,266)
-	-	-	8,338	125,571
(18,933)	-	(3,784)	-	(114,607)
(18,933)	-	(3,784)	8,338	10,964
(342,536)	(27,948)	(47,594)	(73,763)	(470,302)
741,028	102,178	136,844	(9,794)	970,256
<u>\$ 398,492</u>	<u>\$ 74,230</u>	<u>\$ 89,250</u>	<u>\$ (83,557)</u>	<u>\$ 499,954</u>

City of River Rouge, Michigan

Trust and Agency Funds Combining Balance Sheet June 30, 2003

	Agency Fund - 26th District Court Division I	Trust Funds - Retirement Systems	Total
Assets			
Cash and cash equivalents	\$ 69,665	\$ 3,050,174	\$ 3,119,839
Marketable securities	-	34,519,852	34,519,852
Receivables:			
Due from other funds	-	5,096	5,096
Other	-	152,615	152,615
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 69,665</u></u>	<u><u>\$ 37,727,737</u></u>	<u><u>\$ 37,797,402</u></u>
Liabilities and Fund Balances			
Liabilities			
Due to other governmental units	\$ 2,044	\$ -	\$ 2,044
Due to other funds	20,255	75,692	95,947
Deposits and other liabilities	47,366	-	47,366
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	69,665	75,692	145,357
Fund Balances - Reserved for retirement funds	<u> </u>	<u>37,652,045</u>	<u>37,652,045</u>
Total liabilities and fund balances	<u><u>\$ 69,665</u></u>	<u><u>\$ 37,727,737</u></u>	<u><u>\$ 37,797,402</u></u>

City of River Rouge, Michigan

Trust Funds Pension Retirement Systems Combining Balance Sheet June 30, 2003

	General Employees' Retirement System	Policemen and Firemen Retirement System	Total
Assets			
Cash and cash equivalents	\$ 1,148,132	\$ 1,902,042	\$ 3,050,174
Marketable securities	10,934,336	23,585,516	34,519,852
Receivables:			
Due from other funds	-	5,096	5,096
Other	65,594	87,021	152,615
Total assets	<u>\$ 12,148,062</u>	<u>\$ 25,579,675</u>	<u>\$ 37,727,737</u>
Liabilities and Fund Balances			
Liabilities - Due to other funds	\$ 48,519	\$ 27,173	\$ 75,692
Fund Balances - Reserved for retirement funds	<u>12,099,543</u>	<u>25,552,502</u>	<u>37,652,045</u>
Total liabilities and fund balances	<u>\$ 12,148,062</u>	<u>\$ 25,579,675</u>	<u>\$ 37,727,737</u>

City of River Rouge, Michigan

Trust Funds - Pension Retirement Systems Combining Statement of Changes in Plan Net Assets Year Ended June 30, 2003

	General Employees' Retirement System	Policemen and Firemen Retirement System	Total
Additions			
Investment income (loss):			
Interest and dividends	\$ 322,037	\$ 774,300	\$ 1,096,337
Net depreciation in fair value of investments	(174,465)	(12,401)	(186,866)
Mortgage repayments and other	14,316	51,077	65,393
Net investment income	161,888	812,976	974,864
Contributions:			
Employer	624,012	387,491	1,011,503
Employees	120,326	212,791	333,117
Total additions	906,226	1,413,258	2,319,484
Deductions			
Benefit payments	1,812,791	2,924,752	4,737,543
Administrative expenses	142,709	304,928	447,637
Total deductions	1,955,500	3,229,680	5,185,180
Net Decrease in Net Assets Held in Trust for Pension Benefits	(1,049,274)	(1,816,422)	(2,865,696)
Net Assets Held in Trust for Pension Benefits			
Beginning of year	13,148,817	27,368,924	40,517,741
End of year	<u>\$ 12,099,543</u>	<u>\$ 25,552,502</u>	<u>\$ 37,652,045</u>

City of River Rouge, Michigan

Schedule of Bonded Indebtedness June 30, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2003	2002
State Revolving Fund Loan - Downriver					
Date of issue - July 1996 (3 issues)					
Amount of issue - \$2,193,579					
	2.25	10/01/02	\$ 94,167	\$ -	\$ 94,167
	2.25	10/01/03	96,413	96,413	96,413
	2.25	10/01/04	98,632	98,632	98,632
	2.25	10/01/05	100,857	100,857	100,857
	2.25	10/01/06	103,072	103,072	103,072
	2.25	10/01/07	105,498	105,498	105,498
	2.25	10/01/08	107,976	107,976	107,976
	2.25	10/01/09	110,170	110,170	110,170
	2.25	10/01/10	112,830	112,830	112,830
	2.25	10/01/11	115,513	115,513	115,513
	2.25	10/01/12	117,967	117,967	117,967
	2.25	10/01/13	120,832	120,832	120,832
	2.25	10/01/14	123,284	123,284	123,284
	2.25	10/01/15	126,383	126,383	126,383
	2.25	10/01/16	129,091	129,091	129,091
	2.25	10/01/17	128,253	128,253	128,253
	2.25	10/01/18	125,764	125,764	125,764
Total				1,822,535	1,916,702

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2003	2002
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1994 (2 issues)					
Amount of issue - \$753,692					
	2.00	10/01/02	\$ 34,619	\$ -	\$ 34,619
	2.00	10/01/03	35,329	35,329	35,329
	2.00	10/01/04	36,041	36,041	36,041
	2.00	10/01/05	37,226	37,226	37,226
	2.00	10/01/06	37,701	37,701	37,701
	2.00	10/01/07	38,649	38,649	38,649
	2.00	10/01/08	39,361	39,361	39,361
	2.00	10/01/09	40,546	40,546	40,546
	2.00	10/01/10	41,494	41,494	41,494
	2.00	10/01/11	42,206	42,206	42,206
	2.00	10/01/12	43,391	43,391	43,391
	2.00	10/01/13	44,576	44,576	44,576
	2.00	10/01/14	45,525	45,525	45,525
	2.00	10/01/15	41,032	41,032	41,032
Total				523,077	557,696

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2003	2002
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1997 (2 issues)					
Amount of issue - \$222,750					
	2.25	10/01/02	\$ 9,144	\$ -	\$ 9,144
	2.25	10/01/03	9,360	9,360	9,360
	2.25	10/01/04	9,558	9,558	9,558
	2.25	10/01/05	9,792	9,792	9,792
	2.25	10/01/06	10,008	10,008	10,008
	2.25	10/01/07	10,242	10,242	10,242
	2.25	10/01/08	10,476	10,476	10,476
	2.25	10/01/09	10,692	10,692	10,692
	2.25	10/01/10	10,962	10,962	10,962
	2.25	10/01/11	11,196	11,196	11,196
	2.25	10/01/12	11,466	11,466	11,466
	2.25	10/01/13	11,700	11,700	11,700
	2.25	10/01/14	12,006	12,006	12,006
	2.25	10/01/15	12,258	12,258	12,258
	2.25	10/01/16	12,528	12,528	12,528
	2.25	10/01/17	12,816	12,816	12,816
	2.25	10/01/18	13,122	13,122	13,122
	2.25	10/01/19	12,528	12,528	12,528
	2.25	10/01/20	12,834	12,834	12,834
Total				203,544	212,688

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2003	2002
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1998 (3 issues)					
Amount of issue - \$512,365					
	2.25	10/01/02	\$ 21,110	\$ -	\$ 21,110
	2.25	10/01/03	21,919	21,919	21,919
	2.25	10/01/04	22,350	22,350	22,350
	2.25	10/01/05	22,996	22,996	22,996
	2.25	10/01/06	23,425	23,425	23,425
	2.25	10/01/07	24,069	24,069	24,069
	2.25	10/01/08	24,501	24,501	24,501
	2.25	10/01/09	25,145	25,145	25,145
	2.25	10/01/10	25,576	25,576	25,576
	2.25	10/01/11	26,220	26,220	26,220
	2.25	10/01/12	26,865	26,865	26,865
	2.25	10/01/13	27,510	27,510	27,510
	2.25	10/01/14	28,155	28,155	28,155
	2.25	10/01/15	28,799	28,799	28,799
	2.25	10/01/16	29,444	29,444	29,444
	2.25	10/01/17	30,091	30,091	30,091
	2.25	10/01/18	30,736	30,736	30,736
	2.25	10/01/19	31,384	31,384	31,384
	2.25	10/01/20	576	576	576
Total				449,761	470,871

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2003	2002
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1999 (2 issues)					
Amount of issue - \$246,649					
	2.25	4/01/02	\$ 198	\$ -	\$ 198
	2.25	4/01/03	9,677	-	9,677
	2.25	4/01/04	10,201	10,201	9,964
	2.25	4/01/05	10,438	10,438	10,201
	2.25	4/01/06	10,675	10,675	10,438
	2.25	4/01/07	10,912	10,912	10,675
	2.25	4/01/08	11,149	11,149	10,912
	2.25	4/01/09	11,385	11,385	11,149
	2.25	4/01/10	11,622	11,622	11,385
	2.25	4/01/11	12,145	12,145	11,622
	2.25	4/01/12	12,382	12,382	12,145
	2.25	4/01/13	12,619	12,619	12,382
	2.25	4/01/14	12,856	12,856	12,619
	2.25	4/01/15	13,330	13,330	12,856
	2.25	4/01/16	13,567	13,567	13,330
	2.25	4/01/17	14,091	14,091	13,567
	2.25	4/01/18	14,328	14,328	14,091
	2.25	4/01/19	14,802	14,802	14,328
	2.25	4/01/20	15,039	15,039	14,802
	2.25	4/01/21	15,265	15,265	15,039
	2.25	4/01/22	-	-	15,269
Total				226,806	246,649
Total State Revolving Fund Loans - Downriver				\$ 3,225,723	\$ 3,404,606

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2003	2002
Downriver Sewage Disposal Systems Bonds - Series A and B					
Date of issue - July 1994					
Amount of issue - \$368,751					
	6.25	11/01/02	\$ 6,039	\$ -	\$ 6,039
	6.31	11/01/03	6,504	<u>6,504</u>	<u>6,504</u>
Total Downriver Sewage Disposal System Bonds - Series A and B				<u>\$ 6,504</u>	<u>\$ 12,543</u>
State of Michigan Revolving Fund Loan - CSO Project					
Date of issue - September 28, 1995					
Amount of issue - \$5,860,000					
	2.25	10/01/02	\$ 250,000	\$ -	\$ 250,000
	2.25	10/01/03	260,000	260,000	260,000
	2.25	10/01/04	260,000	260,000	260,000
	2.25	10/01/05	270,000	270,000	270,000
	2.25	10/01/06	275,000	275,000	275,000
	2.25	10/01/07	280,000	280,000	280,000
	2.25	10/01/08	285,000	285,000	285,000
	2.25	10/01/09	295,000	295,000	295,000
	2.25	10/01/10	300,000	300,000	300,000
	2.25	10/01/11	310,000	310,000	310,000
	2.25	10/01/12	315,000	315,000	315,000
	2.25	10/01/13	320,000	320,000	320,000
	2.25	10/01/14	330,000	330,000	313,688
	2.25	10/01/15	335,000	*335,000	-
	2.25	10/01/16	345,000	*345,000	-
	2.25	10/01/17	350,000	*350,000	-
	2.25	10/01/18	360,000	<u>*360,000</u>	<u>-</u>
				3,500,000	3,733,688
		Less amounts not drawn		<u>(48,401)</u>	<u>-</u>
Total State of Michigan Revolving Fund Loan - CSO Project				<u>\$ 3,451,599</u>	<u>\$ 3,733,688</u>

* Amount represents additional borrowings during 2003.

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
	Rate			June 30	
	(Percent)			2003	2002
Wayne County Local Government Loan Program Revenue Bonds - CSO Project					
Date of issue - November 16, 1995					
Amount of issue - \$16,300,000					
	4.500	11/01/02	\$ 600,000	\$ -	\$ 600,000
	4.600	11/01/03	625,000	625,000	625,000
	4.700	11/01/04	655,000	655,000	655,000
	4.800	11/01/05	685,000	685,000	685,000
	4.900	11/01/06	720,000	720,000	720,000
	5.000	11/01/07	755,000	755,000	755,000
	5.100	11/01/08	795,000	795,000	795,000
	5.150	11/01/09	835,000	835,000	835,000
	5.250	11/01/10	875,000	875,000	875,000
	5.300	11/01/11	920,000	920,000	920,000
	5.375	11/01/12	970,000	970,000	970,000
	5.375	11/01/13	1,025,000	1,025,000	1,025,000
	5.375	11/01/14	1,080,000	1,080,000	1,080,000
	5.375	11/01/15	1,135,000	1,135,000	1,135,000
	5.375	11/01/16	1,200,000	1,200,000	1,200,000
	5.375	11/01/17	1,260,000	1,260,000	1,260,000
Total Wayne County Local Government Loan Program Revenue Bonds - CSO Project				\$ 13,535,000	\$ 14,135,000

State of Michigan Fiscal Stabilization Bonds

Date of issue - April 11, 1991

Amount of issue - \$1,465,000

	7.25	11/01/02	\$ 165,000	\$ -	\$ 165,000
	7.25	11/01/03	175,000	*	175,000
	7.25	11/01/04	185,000	*	185,000
	7.25	11/01/05	200,000	*	200,000
	7.25	11/01/06	215,000	*	215,000
Total				-	940,000

* Amounts were defeased during the year.

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2003

Description	Interest	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
	Rate			June 30	
	(Percent)			2003	2002
State of Michigan Fiscal Stabilization Bonds, Series 2002B					
Date of issue - November 1, 2002					
Amount of issue - \$6,805,000					
	2.000	11/01/03	\$ 130,000	\$ 130,000	\$ -
	2.000	11/01/04	130,000	130,000	-
	2.000	11/01/05	135,000	135,000	-
	2.300	11/01/06	135,000	135,000	-
	2.700	11/01/07	140,000	140,000	-
	3.000	11/01/08	145,000	145,000	-
	3.200	11/01/09	145,000	145,000	-
	3.500	11/01/10	150,000	150,000	-
	3.600	11/01/11	155,000	155,000	-
	3.700	11/01/12	165,000	165,000	-
	4.000	11/01/13	170,000	170,000	-
	4.000	11/01/14	175,000	175,000	-
	4.200	11/01/15	185,000	185,000	-
	4.375	11/01/16	190,000	190,000	-
	4.500	11/01/17	200,000	200,000	-
	4.600	11/01/18	210,000	210,000	-
	4.700	11/01/19	215,000	215,000	-
	4.750	11/01/20	230,000	230,000	-
	5.000	11/01/21	240,000	240,000	-
	5.000	11/01/22	250,000	250,000	-
	5.000	11/01/23	265,000	265,000	-
	5.000	11/01/24	275,000	275,000	-
	5.000	11/01/25	290,000	290,000	-
	5.000	11/01/26	305,000	305,000	-
	5.000	11/01/27	320,000	320,000	-
	5.000	11/01/28	335,000	335,000	-
	5.000	11/01/29	350,000	350,000	-
	5.000	11/01/30	370,000	370,000	-
	5.000	11/01/31	390,000	390,000	-
	5.000	11/01/32	410,000	410,000	-
Total				6,805,000	-
Total State of Michigan fiscal stabilization bonds				\$ 6,805,000	\$ 940,000

November 14, 2003

Honorable Mayor and
Members of the City Council
City of River Rouge
10600 W. Jefferson Ave.
River Rouge, MI 48218-4711

Dear Mayor and Council Members:

In planning and performing our audit of the financial statements of the City of River Rouge for the year ending June 30, 2003, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions inherent in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, also considered to be material weaknesses as defined above. However, we noted certain reportable conditions that we believe to be material weaknesses and have included them in the following pages labeled *Internal Accounting Controls*. Other reportable conditions, as outlined above, that are not considered material weaknesses, as well as other items we feel warrant your consideration, are included in the section labeled *Other Comments and Recommendations*.

Honorable Mayor and
Members of the City Council
City of River Rouge

November 14, 2003
Page 2

This report is intended solely for the information and the use of the City of River Rouge management and others within the City.

We would like to express our appreciation to the City officials and accounting staff for their assistance and cooperation during the course of our audit. If we can be of additional assistance, or if you have any questions regarding our comments, please do not hesitate to contact us.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Bruce M. Berend", written in a cursive style.

Bruce M. Berend

A handwritten signature in black ink, appearing to read "Scott M. Janssen", written in a cursive style.

Scott M. Janssen

INTERNAL ACCOUNTING CONTROLS

General Fund Operating/Fund Deficit

Although the City has implemented significant cost cutting measures during the past two years, the operating deficit and the fund deficit in the General Fund for the years ended June 30, 2002 and 2003 were approximately \$2,149,000 and \$1,865,000, respectively. A significant factor for this was the result of deferring approximately \$1,012,000 and \$1,857,000 of property tax revenue from National Steel in 2002 and 2003, respectively, because of their bankruptcy filing and the timing of cash collections. We continue to urge you to make balancing the operating budget an immediate and high priority item. Again, we encourage the City to eliminate all non-essential programs and give immediate consideration to other cost cutting measures, including further reductions in staff levels.

Self Insurance Cash Account

The bank continues to make minimum balance transfers from the City's operating cash account to the self-insurance account. This transfer is to an imprest bank account on which the City does not write checks and does not reconcile the disbursements made by the third party to actual checks cashed. The automatic transfers made by the bank remove the City's control over the disbursements and eliminate the safeguards of an imprest account. These transfers amounted to approximately \$2,080,000 during the year ended June 30, 2003. The Council did approve payment of the total of each check run provided by the claims administrator, Automated Benefit Services (ABS). We recommend the City reconcile this bank account along with all other cash accounts on a monthly basis. We understand the City has made arrangements to have this process begin in July 2003.

Water and Sewer Fund

Following are comments and recommendations to improve the operations and accounting controls of the Water and Sewer Department:

1. As you are aware, Wayne County obtained a judgment levy against the City to provide the necessary funds to pay the debt service on the CSO basin project. The judgment was necessary because the City's current rate structure was insufficient to cover these costs. Even with the levy covering these costs, the current rate structure remains insufficient to cover operating costs and necessary capital outlays (such as water line replacement). To ensure adequate cash flow City wide, it is critical that the City addresses this issue as soon as possible, including the possible affects on water and sewer rates.

INTERNAL ACCOUNTING CONTROLS

Water and Sewer Fund (Continued)

2. The City's percentage of water loss (i.e. the water purchased from the City of Detroit, but not sold and/or charged to the City of River Rouge customers) increased to 36 percent for the year ended June 30, 2003. The water loss for the last 4 years is as follows:

Year ended June 30	Water Loss %
2000	39 %
2001	35 %
2002	32 %
2003	36 %

During the current year, the City continued to have numerous water line breaks and did install two pressure relief valves to help reduce future line breaks due to significant pressure changes. The City should continue to monitor the loss, and implement corrective actions to decrease this loss during the year ended June 30, 2004.

While a high water loss percentage is not uncommon for communities with a system as old as the River Rouge system, the lost revenue from water loss and the corresponding expense (e.g. sewage costs) must be prevented in order to maintain the economic viability of the water and sewer system.

The City should also periodically review its water loss during the year and follow up immediately on any unusual variances. Further, we suggest that this periodic review be documented, perhaps on a form specifically designed for this purpose, and that procedures be designed to report any unusual variances to the appropriate management personnel.

3. An accounts receivable trial balance should be generated and reconciled to the general ledger control account periodically (at least on a quarterly basis). Currently, the only reconciliation is performed by the auditors at year-end. As part of this reconciliation, each customer's account receivable balance should be reviewed for unusually large debit or credit balances, which may require further investigation.
4. The City does not have procedures in place to bill customers with broken meters. By failing to bill customers for water usage while meters are broken, the City is foregoing revenue and is aiding the increase in water loss. A policy should be adopted to bill customers with broken meters using estimated readings based on prior usage, until the meters can be repaired or replaced.

INTERNAL ACCOUNTING CONTROLS

Retirement Systems

We offer the following comment and recommendation related to the retirement system:

Trustees currently administer both the Employees' and Police and Fire Retirement Systems. In order to provide accurate accounting information and allow for proper safeguarding of the assets, we recommend that the monthly activity statements received from the trustees be reconciled to the general ledger on a timely basis. The calculation of the City's monthly pension contribution should also be reviewed for completeness and accuracy before posting to the general ledger.

Cash Receipt System

A key element of internal control is the appropriate segregation of job responsibilities. The risk of intentional or unintentional error or omissions in the accounting records is reduced to the extent one individual is not involved to a significant degree with the majority of duties in any given area. A second important element of internal control is the establishment of accountability for every transaction as early as possible. A third desired element of internal control is the management review function.

In light of the above key elements of internal control, which really serve as goals for any system of internal control, and also considering the practicalities of the City's situation, we recommend that consideration be given to implementing the following suggestions that will improve overall internal control related to cash receipts:

1. Presently, all of staff in the Treasurer's Department collect cash. In addition, certain of these individuals also update the accounting records for cash receipts as well as make wire transfers for the City. We continue to recommend the City segregate these duties to the extent staff levels permit.
2. The City should also consider assigning someone independent of the Treasurer's office to review the water and sewer and property tax postings to ensure completeness and accuracy.

Cash Disbursements

The City has a procurement policy which requires all purchases over \$2,500 to go out to bid. We examined various transactions during the year including purchases of vehicles, computers, and heating and cooling repairs and found that four out of the six items selected failed to follow the proper bidding procedures. The City needs to enforce the procurement policy rather than continuing to use the same vendors to ensure that the City is fairly charged for services and products.

INTERNAL ACCOUNTING CONTROLS

Property Tax Collections

The City should ensure all current and delinquent property tax collections are distributed to the appropriate taxing entities on a timely basis. We understand that a system to track the allocation of delinquent property tax collections has been implemented; however, there were balances due to the various entities at June 30, 2003 as follows:

River Rouge Schools	\$131,000
Wayne County	\$234,000

Similarly, the State of Michigan's allocable portion of collections on the current year levy of approximately \$2,725,000 has also not been remitted.

OTHER COMMENTS AND RECOMMENDATIONS

Accounts Payable / Cash Disbursements / Procurement of Vendor

During our testing of the cash disbursements system, it was noted that multiple voucher requests were not authorized by the finance director. Authorization for payment is a procedure that should be consistently followed. It was also noted that all staff in the Treasurer's Department have access to the check-signing stamp. We recommend that access to the stamp be restricted to the Deputy Treasurer and that the stamp be maintained in a more secure location.

It was also brought to our attention that the City does not have a policy in place to verify that contractors who perform work for the City have adequate workers' compensation coverage. During the past year, the City had to pay an additional \$68,000 in premiums, under its workers' compensation plan, to cover those contractors that did not have workers' compensation coverage. The City should institute a policy to verify that contractors have workers' compensation coverage prior to engaging them to perform work.

Fixed Asset Records

As mentioned in prior years, we noted that the supporting fixed asset records were not complete with respect to additions or disposals during the year. The City also does not have a formal policy indicating the dollar amount thresholds to be used for recording fixed asset additions. We recommend that all fixed asset records be updated on a regular basis. This would also include reviewing all repairs and maintenance accounts to ensure all asset purchases have been recorded in the fixed asset account group or capitalized in the Water & Sewer fund. Dollar thresholds should also be established for the addition of new fixed assets to both the account group and the Water and Sewer Fund.

In addition, to improve physical control over fixed assets, we recommend the City compile an inventory of all fixed assets and their historical or estimated costs. In connection with the inventory, we suggest that all fixed assets be tagged and given a code to facilitate creating a computer file. Proper planning and coding will allow the City to sort the fixed asset listing in different ways, such as by department, type of equipment or tag number. This capability will facilitate accountability by individuals given the responsibility for specific fixed assets. In addition, a comprehensive asset listing will be useful when evaluating your level of insurance coverage or in substantiating an insurance claim.

OTHER COMMENTS AND RECOMMENDATIONS

Water and Sewer Fund

Following are comments and recommendations to improve the operations and accounting controls of the Water and Sewer Department:

1. While reviewing customer billings, it was noted that there are payment agreements with customers delinquent on their water and sewer bills. The agreements are being authorized by the Water and Sewer Department. Current policy is that agreements can be made for any customer that has a past due water bill. Once a payment agreement is created, the delinquent water bills are not transferred to the tax rolls unless the customer misses two payments. Delinquent water bills should be transferred to the tax rolls for collection yearly, as amounts cannot be transferred to the rolls after three years. By creating payment agreements, the City risks the exposure of not being able to collect on delinquent water bills. We recommend that the City adopt a formal policy related to the creation of payment agreements, which includes specific qualifying criteria.
2. The City should review its procedures for allocation of all expenditures, including payroll to the different departments within the Water and Sewer Fund. EPA mandates require rates to be set based on actual costs for the water and sewer components separately. Proper allocations are essential to ensure that these mandates are met on an annual basis.
3. Given the significant capital expenditures incurred during the current year and the future debt payments expected in the next few years, monitoring the Water and Sewer Fund expenditures and revenue becomes increasingly important. It was noted that the Water and Sewer Fund budget was amended during the current year, however at year-end there were significant variances from the amended budget. We strongly urge the City to perform a timely budget analysis, which will aid in cash flow projections and help identify significant budget variances.
4. As mentioned in previous years, the City continues to have a substantial number and amount of unpaid water and sewer bills that eventually are added to the tax rolls. For example, one customer's outstanding balance had accumulated to over \$4,700 before action was taken. Through discussion with personnel in the Water and Sewer Department, it was determined that the City still does not have a shut off policy for customers that are delinquent on water bills. We would recommend that the City adopt an aggressive shut off policy to encourage timely payments and improve cash flows.

OTHER COMMENTS AND RECOMMENDATIONS

Water and Sewer Fund (Continued)

5. The City provides water and sewer service to several City of Ecorse residents that reside on the border between the two cities. It was noted that three of these residents have large delinquent water bills, which have doubled since last year. The City has no recourse against these residents other than to shut off their water as delinquent bills cannot be transferred to the tax rolls for nonresidents. We would recommend that the City include the Ecorse residents in any shut off policy that is adopted to encourage timely payments and improve cash flows.
6. While reviewing manual customer billings, it was noted that Shell Co. does not submit its quarterly statements of usage to the City on a timely basis, which prevents the City from billing the company regularly. The Water and Sewer Department should follow-up with Shell Co. in a timely manner to obtain a quarterly statement and / or prepare estimated billings to resolve this matter.

Federal Programs

1. While reviewing cash management procedures related to the Community Development Block grant, it was noted that requests for reimbursement are not always prepared on a timely basis. Generally, reimbursement requests are submitted at the end of a project, which can lead to a significant time lag between the expenditure and the subsequent reimbursement. Given the current economic condition of the City, the General Fund cannot afford to subsidize the grant programs for any longer than is necessary. We would suggest that requests for reimbursement be completed as quickly as possible.
2. The City submitted documentation supporting Community Development Block Grant expenditures and requested reimbursement prior to releasing its check to the vendor. We noted another instance where the City submitted documentation requesting reimbursement prior to spending program income on hand. The City should establish policies to discontinue requesting reimbursements prior to incurring the expenditure or using program income.
3. The City was at risk of having federal funding recaptured as a result of not planning and starting projects during the period of availability. As a result, the City submitted a reimbursement request prior to actually incurring the expenditure. The City should implement a cash management program to ensure both timely spending of awards and accurate submission of reimbursement requests. This will reduce the risk of recaptured federal funding and reduce the likelihood that the City will have to completely fund its own projects.

OTHER COMMENTS AND RECOMMENDATIONS

Other Items

1. The City should establish and maintain a detailed summary of all delinquent personal property taxes outstanding, reconcile this summary to the general ledger and continue to aggressively pursue the collection of these receivables.
2. The City should ensure that all annual reports are filed timely. For example, during the current year the F-65 was filed late.
3. The City should require retainage terms to be included in significant construction contracts to ensure satisfactory and timely performance by the contractor.
4. The City should expand its existing computer back-up plan to include storing back-up tapes at an off-site location to avoid data loss in case of a catastrophic event such as a fire or flood.
5. Given the City's limited staffing levels, consideration should be given to eliminating the payroll services provided to the Housing Commission and the Economic Development Corporation (EDC). After the City issues the bi-weekly checks, there is approximately a 30 to 60 day wait for reimbursement. Additionally, it was noted that as of June 30, 2003, the Housing Commission was not billed for reimbursement of wages for work performed in December 2002 and May 2003. Overall, there is a receivable of approximately \$32,000 at June 30, 2003 related to the above. The City should consider reestablishing the policy of having these entities reimburse the City for each payroll at the time the checks are prepared and picked up. Timely reconciliation of the receivable balance will also allow the City to identify any errors and to bill and collect these amounts.
6. During our testing, we noted that activity related to Act 495 Fire Deposits is not accurately recorded in the general ledger. Deposit activity should be maintained in a separate subsidiary ledger, which will allow the City to accurately account for deposits received, balances remitted back to the homeowner and deposits turned over to the City as reimbursement for demolition costs incurred. This subsidiary ledger should be reconciled with the general ledger on an ongoing basis. As deposits are received by the Treasurer's Department, it is also important that the related addresses are documented so that refunds can easily be matched with the corresponding deposit. We also suggest retaining copies of receipts and checks used for disbursement.

OTHER COMMENTS AND RECOMMENDATIONS

Other items (Continued)

While reviewing building bond activity, we noted that an accurate schedule of bond deposits and refunds is not maintained. We recommend that a listing of deposits and refunds be maintained and reconciled to the general ledger. We have provided the Building Department with a schedule to be used for this purpose. In order to appropriately segregate the refundable amounts from the revenue, the Building Department should ensure proper communication to the Treasurer's office, so that the correct accounts can be updated. In addition, the City's listing of outstanding bonds contains old bonds dating back to 1998 which should be forfeited to the City. However, Building Department personnel indicated that the City's building bond ordinance does not allow for old outstanding bonds to be forfeited to the City. We recommend the City investigate and give consideration to changing its building bond ordinance, if necessary, to allow old bonds to be forfeited to the City's General Fund after a period of several years.

LEGISLATIVE ISSUES

STATE SHARED REVENUE

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for approximately \$1,710,000, or 18 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We have attached two charts to provide you with more detail on what has occurred with revenue sharing, both at the State level and relative to your City. The first chart represents total revenue sharing distributions to all cities, villages and townships. As the chart indicates, during the State's fiscal years 1997/1998 through 2000/2001, the State fully funded revenue sharing (i.e. meaning that all revenue sharing available to distribute by law was returned to local government). However, beginning with the State's 2001/2002 fiscal year and continuing forward, the State has not fully funded revenue sharing. In fact, over a three period (from fiscal years 2001/2002 through 2003/2004), the State has diverted over \$475 million of revenue sharing provided by law away from local government. The second chart demonstrates the impact that these cuts in revenue sharing by the State have had on the City of River Rouge. For the City, revenue sharing funding levels are approximately \$724,000 less for the 2003/2004 fiscal year as compared to fiscal year 1999/2000.

LEGISLATIVE ISSUES

STATE SHARED REVENUE (continued)

We will continue to update the City as developments occur.

FEDERAL AID FROM AUGUST 2003 BLACKOUT

The State has requested aid from the Federal Government for costs incurred by the State and local governments as a result of the August 2003 blackout. Specifically, emergency monies were requested to reimburse Michigan governmental units for overtime for public safety and transportation workers and other out-of-pocket costs associated with the blackout. If you not already done so, identify your costs associated with the blackout in the event that the State is successful in receiving emergency funds from the Federal Government. It is expected that if emergency funds are received by the State, local units will be allowed to submit claims for consideration.

DISTRICT COURT FILING FEE REVENUE

The Michigan Legislature approved a new \$5 fee for communities with a third class district court. In the new provision, the monies raised by the increased fee would be designated for the local courts.

NEW HOMESTEAD AUDIT PROGRAM

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

STATE TO FUND PERSONAL PROPERTY TAX AUDITS

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. The Michigan Department of Treasury is responsible for developing the guidelines of the program.

LEGISLATIVE ISSUES

TELECOMMUNICATIONS ACT REVENUE

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to new Telecommunications Act. All local units recognized by the METRO Authority as having "opted in" are listed on their website (www.michigan.gov/metro). The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Per our review of the website, the City did not "opt in". However, you may still opt-in by December 31, 2003 ("opting in" by December 31, 2003 will qualify you for the second payment and all future payments as well as the first payment with interest). Checks for the second payment (including the first payment with interest, if applicable) will be distributed in the Spring of 2004.

ACH ARRANGEMENTS (September 2003)

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

Beginning immediately, the Council may need to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - describe the goods or services purchased,
 - the cost,
 - date of payment, and
 - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

LEGISLATIVE ISSUES

PERSONAL PROPERTY TAX

As you are aware, the State Tax Commission approved several years ago new personal property tax tables for utilities. The new tables made drastic changes to the transmission and distribution property of utilities. General estimates are that the use of the new utility tables result in approximately a 30% revenue loss on those properties. The City, like many other communities, has elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject of several lawsuits brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. The State is currently in the process of determining how refunds will be made on appeals filed by the utilities pending the final resolution of this matter. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2002 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2003.

Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

LEGISLATIVE ISSUES

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (June 30, 2003) and is good for one year thereafter.

ACCOUNTING ISSUES

GASB 34 - New Financial Reporting Model

As you are probably aware, July 1, 2002 was the implementation date of GASB 34, the statement which created a new governmental reporting model. Given the current financial condition of the City and considering the additional time, effort and costs that will be associated with this process, it has been decided to delay the implementation of GASB 34. The impact upon the City's financial statements is the issuance of an adverse opinion on the Independent Auditor's Report Letter for the June 30, 2003 financial statements. Should the City decide to implement this pronouncement in the future, we would be happy to assist your staff with this process.